



Section 3.9

Activity 3.9.1

1. A 'budget' is a detailed financial plan for the future use of resources by an organisation.
2. Reasons why budgeting is important to Kinibali Timber Ltd include:
 - Being a vital part of the planning process
 - It helps to make sure resources are used effectively
 - It helps to set targets.

3. Variances for Kinibali Timber Ltd:

\$'000	Budgeted figures	Actual figures	Variances
Sales revenue	660	700	40 (F)
Direct labour	150	180	30 (A)
Direct materials	120	170	50 (A)
Fixed costs	60	50	10 (F)
Profit	330	300	30 (A)

4. Variances might be useful to managers because they can:
 - Show the performance of different parts of the organisation against budgeted objectives
 - Motivate workers to achieve budgeted objectives.
5. Kinibali Timber Ltd's problems seem to be controlling its:
 - Direct labour cost
 - Direct material cost.



Exam practice question

1. 'Variance' is the difference between an actual figure and a budgeted figure.
2. A manufacturing business sets budgets for sales and costs by:
 - Setting the sales budget based on past data and market research
 - Setting direct cost budgets based on sales activity levels.
3. Problems of trying to budget for the cost of raw materials include:
 - The cost is affected by activity levels that may be unpredictable
 - The market price of raw materials might be volatile.

4. Completed table:

	Budgeted figures (\$000)	Actual figures (\$000)	Variances
Sales revenue	165	150	15(A)
Cost of materials	80	70	10(F)
Labour costs	22	23	1(A)
Gross profit	63	57	6(A)
Overheads	40	43	3(A)
Net profit	23	14	9(A)

5. The performance of Oasis Cookers is relatively poor in terms of adverse:
 - Sales revenue
 - Labour cost
 - Overheads
 - Gross profit
 - Net profit

The performance area which is relatively good in terms of favourable variance is:

- Cost of materials.



Key concept question

Budgeting can be used to support business strategy through:

- Guiding strategic decision-making
- Business planning
- Setting objectives
- Allocating resources efficiently
- Giving managers responsibility
- Assessing performance

The problems of applying budgets might be:

- Forecasting future use of resources
- Interpreting why actual figures might be different to budgeted figures.